

FOOD GIANT

MARKETS, INC.



ANNUAL REPORT FOR THE YEAR ENDING DECEMBER 31, 1957

FOOD GIANT...

In America's Fastest



CHECK-OUT STATION

All Food Giant stores have large selling areas and modern check-out stations to accommodate the high volume which they enjoy.

Food Giant stores are typically located in desirable community shopping centers in the densely populated areas of Greater Los Angeles. Designed for highest operational efficiency and supplemented by unusually ample parking facilities, these stores offer the buying public the ultimate in customer convenience and comfort.

Food Giant's aggressive merchandising policy of offering an infinite variety of nationally branded foods at highly com-



COMMUNITY SHOPPING CENTER

A typical Food Giant location in a major community shopping center containing nationally known stores, with extensive parking facilities.



SUPER MARKETS

Growing Section

petitive prices has been the keystone of its success.

This policy when combined with an unstinting regard for courtesy and cleanliness throughout its operation has earned for Food Giant the respect and confidence of the buying public.

The reputation that Food Giant has established in this rapidly growing section of the country is a firm foundation to support the program of expansion which is now projected by the Company.



PRODUCE DEPARTMENT

Fresh fruits and vegetables of every variety are massively displayed in tier after tier in Food Giant produce sections like this. Shoppers are offered not one but several choices of almost every item.



REFRIGERATED DISPLAY CASE

This extensive frozen food department illustrates Food Giant's responsiveness to the changing food habits of the American consuming public.



TO OUR SHAREHOLDERS:

The year 1957, a significant one in the history of your Company, was characterized by transition and progress. The Magic Chef Division further consolidated its manufacturing operations, and the released assets were used to enter the dynamic and lucrative food industry. On August 5, 1957, Food Giant Markets, a thriving chain of six super markets in Greater Los Angeles, with an aggregate annual volume of approximately \$33,000,000 and earnings substantially in excess of national averages, was merged into Magic Chef, Inc. The Corporation changed its corporate name and was known briefly as Magic Chef-Food Giant Markets, Inc., but the paramount importance of the food operation dictated the further change to Food Giant Market, Inc., which was approved by more than 90% of the outstanding stock at a special meeting of the shareholders on February 17, 1958.

The merged companies earned \$904,835 during 1957 on sales of \$46,577,849 after providing for income taxes of \$496,972 applicable to the profits of the Food Giant Markets Division earned prior to the date of merger. Subsequent to the merger, Food Giant Markets Division's earnings were \$798,209 on sales of \$13,534,852, against which no provision for income taxes was required.

The relocation of the manufacturing operations of Magic Chef from St. Louis to Franklin, Tennessee, was completed during 1957. The vacated St. Louis plant was leased to McDonnell Aircraft Corporation,

with a rental, since July 1, 1957, more than sufficient to cover all stand-by expenses. While the present lease is a very satisfactory rental arrangement, the Company's aim is to sell the St. Louis plant to provide additional capital for further expansion in food market operations.

During the last quarter of the year the Magic Chef Division sold its Commercial Range operation located in Cleveland, Ohio. This transaction included tools and dies, fixtures, special machinery, and inventory of raw material, work in process, and finished goods. All the other machinery and equipment was sold in February 1958. The total proceeds from the above sale exceeded the book value of the assets sold. Not involved in this sale were the plant and real estate. There is now being offered for sale the 34 acres of real estate located in a prime industrial area in Cleveland and the plant consisting of 300,000 square feet of manufacturing space. The warehouse on the property is currently leased, with the rental contributing substantially to the overall stand-by expense. While the Magic Chef Division did not show a profit for 1957, your management is confident that this operation will be a profitable one now that the abnormal expenses involved in the consolidation are behind us.

The funds already released by the sale of Magic Chef Division assets and the concentration of the manufacturing operation in Franklin, Tennessee, permitted further expansion in the profitable food industry. On

November 25, 1957 your Company contracted to purchase for cash substantially all of the operating assets of Panorama Markets Company, a chain of super markets also in the Greater Los Angeles area. This acquisition included three large super markets and three new store locations. Their sales and earnings will be included in the operations of your Company starting January 1, 1958, as of which time your Company's Food Giant Markets Division had a sales volume at an annual rate in excess of \$50,000,000.

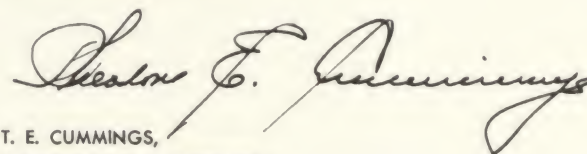
Your Company recently entered into an agreement to purchase for cash substantially all of the operating assets of Marks Food Corporation which operated eight super markets under the name of Clarks Markets in Greater Los Angeles with a current sales volume in excess of \$29,000,000 annually. The operation of Clarks Markets will become part of your Company's Food Giant Markets Division as of March 31, 1958, at which time the Food Giant Markets Division will be operating at a current annual volume in excess of \$80,000,000. Of the funds required to complete this purchase, \$1,000,000 will be derived from the proceeds of a private placement of 100,000 shares of the Company's \$10 par value Cumulative Convertible Preferred Stock — 4% Series of 1958 with provisions identical with the presently outstanding 4% Cumulative Convertible Preferred Stock.

Based upon present leases and the completion dates of the buildings therein provided, your Company has scheduled the

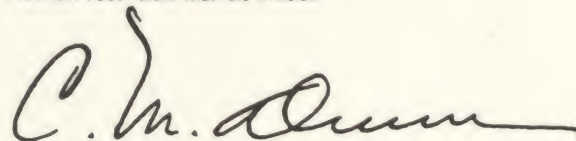
opening of fifteen new markets by December 31, 1959. The additional personnel added to Food Giant's present staff through the acquisition of Panorama Markets Company and Clarks Markets makes possible this expansion program which will be financed out of current operations. Accordingly, an annual sales volume at the rate of \$100,000,000 should be reached before the end of 1958. Therefore, we feel that 1958 will be a year of important progress for your Company.

On behalf of the Board of Directors we desire to express our appreciation for the loyal cooperation of our fellow officers and our employees in making possible the year's significant achievements and to extend our thanks to the shareholders for their continued confidence in the Company and its management.

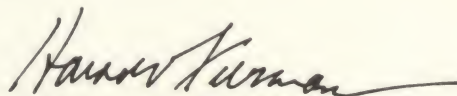
Respectfully submitted,



T. E. CUMMINGS,
Chairman, Executive Committee,
President Food Giant Markets Division



C. M. DUNN,
President



HAROLD L. FIERMAN,
Chairman, Board of Directors

MARCH 31, 1958

BALANCE S FOOD GIANT M

December

ASSETS

CURRENT ASSETS

Cash.....		\$ 2,193,734	
Receivables:			
Trade accounts.....	\$ 1,800,557		
Sundry notes and accounts.....	633,568		
	<u>\$ 2,434,125</u>		
Less allowance for doubtful accounts.....	100,000	2,334,125	
Inventories — at lower of cost (first-in, first-out, average or standard) or market:			
Food Giant Markets Division:			
Merchandise inventories.....	\$ 2,206,305		
Magic Chef Division:			
Finished products.....	1,297,474		
Products in process.....	455,646		
Raw materials.....	<u>1,395,062</u>	5,354,487	
Prepaid expenses.....		108,401	
		<u>\$ 9,990,747</u>	
	TOTAL CURRENT ASSETS		

OTHER ASSETS

Escrow deposit — Note B.....	\$ 2,400,000		
Other deposits, advances, and sundry accounts.....	130,988		
Property and plant not used in operations — Note C:			
On basis of cost:			
Buildings and improvements.....	\$3,400,090		
Less allowances for depreciation.....	<u>1,414,174</u>		
	\$1,985,916		
Land.....	<u>213,043</u>	<u>2,198,959</u>	4,729,947

PROPERTY, PLANT, AND EQUIPMENT

On basis of cost:			
Used in operations:			
Food Giant Markets Division:			
Fixtures, equipment, and leasehold improvements.....	\$ 2,016,486		
Less allowances for depreciation and amortization...	<u>1,006,661</u>		
	\$ 1,009,825		
Land.....	<u>31,982</u>	1,041,807	
Magic Chef Division:			
Buildings, machinery, equipment, and leasehold improvements.....	\$ 6,232,824		
Less allowances for depreciation and amortization...	<u>4,077,111</u>		
	\$ 2,155,713		
Land.....	<u>43,365</u>	<u>2,199,078</u>	
		<u>\$17,961,579</u>	

HEET—Note A

MARKETS, INC.

31, 1957

LIABILITIES

CURRENT LIABILITIES

Accounts payable:

Trade and other accounts.....	\$ 2,048,930	
Salaries, wages, and commissions.....	168,663	
Payroll and withholding taxes.....	96,548	\$ 2,314,141
Accrued state and local taxes and interest.....		220,439
Dividends payable.....		175,498
Current maturities of long-term debt.....		267,000
Federal taxes on income — Note D.....		315,432

TOTAL CURRENT LIABILITIES

\$ 3,292,510

LONG-TERM DEBT

5¾% Promissory note payable to insurance company, payable in annual installments of \$167,000 on each August 1st from 1958 until the note shall be paid in full — less current maturities — Note E.....	\$ 2,333,000	
4% Promissory notes payable for equipment purchased, \$25,000 payable on January 10 and quarterly thereafter— less current maturities.....	50,000	2,383,000

STOCKHOLDERS' EQUITY

Capital stock:

4% Cumulative Convertible Preferred Stock, par value \$10 a share — Note F:		
Authorized 1,500,000 shares; issued and outstanding 877,490 shares.....	\$ 8,774,900	
Common Stock, par value \$1 a share — Note G:		
Authorized 2,500,000 shares (of which 438,745 shares are reserved for conversion of the 4% Cumulative Convertible Preferred Stock and 61,125 shares are reserved for options); issued and outstanding 1,222,490 shares.....	1,222,490	
Capital surplus.....	1,666,782	
Earned surplus.....	621,897	12,286,069

CONTINGENT LIABILITIES — Note H

LONG-TERM LEASES — Note I

\$17,961,579

See Notes to Financial Statements.

STATEMENT OF INCOME AND EXPENSE AND EARNED SURPLUS—Note A

FOOD GIANT MARKETS, INC.

Year ended December 31, 1957

Net sales.....		\$46,577,849
Cost of products sold.....		<u>37,156,166</u>
		\$ 9,421,683
Operating, selling, administrative and general expenses.....		<u>8,115,261</u>
		\$ 1,306,422
Other income:		
Rental income.....	\$ 45,533	
Sundry.....	<u>179,251</u>	224,784
		\$ 1,531,206
Other deductions:		
Interest expense.....	\$ 140,943	
Sundry.....	<u>10,748</u>	151,691
		\$ 1,379,515
Income before special and unusual items		
Special and unusual items:		
Restoration of balance, no longer required, of allowance for write down of certain properties to estimated realizable amount.....	\$ 379,558†	
Expense of relocating machinery, tools, and dies.....	<u>210,495</u>	
Expense of property and plant not used in operations, less rental income.....	<u>146,771</u>	22,292†
		\$ 1,401,807
Income before taxes on income		<u>496,972</u>
Federal taxes on income — Note D.....		\$ 904,835
Net income		
Earned surplus or deficit* at January 1, 1957:		
Magic Chef, Inc.....	\$1,307,757*	
Food Giant Markets (including predecessor companies)...	<u>1,200,317</u>	107,440*
		\$ 797,395
Dividends declared on 4% Cumulative Convertible Preferred Stock — \$0.20 a share.....		<u>175,498</u>
Earned surplus at December 31, 1957		<u>\$ 621,897</u>

†Indicates income.

Depreciation and amortization of property, plant, and equipment of \$974,301 are included in the above statement. See Notes to Financial Statements.

STATEMENT OF CAPITAL SURPLUS—Note A

Year ended December 31, 1957

Balance at January 1, 1957:		
Magic Chef, Inc.....		\$10,103,182
Food Giant Markets (including predecessor companies)...		<u>182,500</u>
		\$10,285,682
Deductions:		
Par value 853,490 shares of 4% Cumulative Convertible Preferred Stock issued to Common Stockholders of Magic Chef, Inc. and Food Giant Markets at date of merger..	\$8,534,900	
Excess of par value of 24,000 shares of Common Stock and 24,000 shares of 4% Cumulative Convertible Preferred Stock over option price upon exercise of option.....	<u>84,000</u>	8,618,900
Balance at December 31, 1957		<u>\$ 1,666,782</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

FOOD GIANT MARKETS, INC.

December 31, 1957

Note A. As of August 5, 1957, Food Giant Markets was merged into Magic Chef, Inc. and the name changed to Magic Chef-Food Giant Markets, Inc. On February 17, 1958, the name was changed to Food Giant Markets, Inc.

At the merger date the holders of Common Stock of the Company received one share of 4% Cumulative Convertible Preferred Stock for each share of Common Stock and the Company issued 575,000 shares of Common Stock and 230,000 shares of 4% Cumulative Convertible Preferred Stock to the holders of Common Stock of Food Giant Markets.

This transaction has been included in the financial statements in accordance with the pooling of interests accounting principle and accordingly the operating results of Food Giant Markets (and certain predecessor companies) for the seven months ended July 31, 1957 have been included in the foregoing statement of income and expense and earned surplus.

Note B. On November 25, 1957, the Company agreed to acquire certain assets of Panorama Market Co. as of January 1, 1958 and to assume certain liabilities for a cash consideration of \$4,396,916. In connection with this acquisition, \$2,400,000 had been deposited in escrow at December 31, 1957. In January, 1958, the Company borrowed an aggregate amount of \$2,000,000 from various banks, on 90 day 4 3/4 % notes, the proceeds of which were used to pay the balance of the purchase price.

Note C. The Company intends to sell certain property and plant of the Magic Chef Division, not used in operations, located in St. Louis, Missouri, and Cleveland, Ohio. Certain machinery and equipment not being used in operations, which the Company intends to sell, has not been segregated in the balance sheet. The management believes that the proceeds from the sale of property, plant, and equipment not used in operations will exceed the recorded net carrying amount of such assets.

Note D. The deduction for federal taxes on income represents the liability of the predecessor companies prior to the merger date. No tax liability is attributable to the operations subsequent to the merger because of available net operating loss deductions. The net operating loss carry-over to 1958 and subsequent years, based on losses reflected by the Company's returns, with respect to which no reports of examination have been issued by the Internal Revenue Service, was in excess of \$4,000,000.

Note E. In accordance with the terms of the agreement dated October 28, 1957, relating to the note payable to an insurance company, the Company has agreed, among other things, (a) to maintain working capital of at least \$5,000,000 to December 1, 1959 and any time thereafter of at least \$6,000,000, (b) not to incur any funded or current debt in excess of \$2,000,000 in connection with the purchase of operating retail food stores, and (c) not to have other current debt from borrowings in excess of an aggregate of \$2,000,000 at any time outstanding, provided the Company shall not incur any such current debt unless the Company has been free of such current debt for a period of at least 60 consecutive days within the 15 month period immediately preceding the creation of such current debt. In addition, the Company has agreed that it will not pay or declare any dividend, except dividends on 4% Cumulative Convertible Preferred Stock, redeem, purchase, or otherwise acquire, directly or indirectly, any shares of its stock except out of net earnings available for restricted payments, which at December 31, 1957 amounted to \$521,748.

Note F. The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The presently issued 4% Cumulative Convertible series shall be redeemable at any time on or after August 1, 1959, at a redemption price equal to \$10.50 per share plus all dividends accrued to the redemption date and in the event of voluntary or involuntary liquidation or dissolution is entitled to \$10 per share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully paid Common Stock of the Company, at the rate of one half share of Common Stock for each share of 4% Cumulative Convertible Preferred Stock.

Note G. On August 2, 1957, the stockholders approved a Restricted Stock Option Plan for employees of the Company, including directors and officers for a maximum of 61,125 shares of unissued or reacquired Common Stock. The five year options are exercisable in three annual installments commencing one year after granting for a maximum of 40% of the optioned shares with the balance of the optioned shares becoming exercisable in the two succeeding years. The option price is to be not less than 100% of the fair market value of the stock at the time the option is granted.

On December 31, 1957, options were outstanding under the Plan for 22,700 shares at \$10.50 per share. Options for an additional 10,000 shares at a price of \$13.75 per share, which were granted in connection with an employment agreement, are also outstanding. It is presently contemplated that no charges to income will be reflected with respect to the options.

During the year options for 24,000 shares of unissued Common Stock and 24,000 shares of unissued 4% Cumulative Convertible Preferred Stock were exercised by an officer at a combined price of \$7.50 for one share each of Common Stock and 4% Cumulative Convertible Preferred Stock. This option had been issued by Magic Chef, Inc. prior to the merger on August 5, 1957 of Food Giant Markets into Magic Chef, Inc.

Note H. At December 31, 1957, the Company was contingently liable for \$731,088 on notes receivable that had been discounted. These notes had been received on the sale of certain assets of the Cleveland, Ohio plant of the Company which was closed during the year.

Note I. At December 31, 1957, the Company was lessee under 9 leases having terms of more than 3 years with aggregate minimum annual rentals of approximately \$294,000. It also was lessee under 4 leases having terms of 20 years or more for which it did not pay rent in the year ended December 31, 1957 but will have to pay aggregate minimum annual rentals of approximately \$179,000. Leases accounting for approximately 40% of such minimum annual rentals expire at various dates within the next 20 years.

Note J. On March 18, 1958, the Company agreed to acquire the net assets of Clarks Markets operated by Marks Food Corporation for a consideration of approximately \$6,000,000.

DIRECTORS

THEODORE E. CUMMINGS	A. J. GOCK
CECIL M. DUNN	RAY L. HOMMES
HAROLD L. FIERMAN	ARTHUR STOCKSTROM
J. B. WHARTON, JR.	

OFFICERS

HAROLD L. FIERMAN <i>Chairman of the Board</i>	THEODORE E. CUMMINGS <i>Chairman of Executive Committee</i>
CECIL M. DUNN <i>President</i>	JOHN H. MANGLE <i>Vice-President — Finance</i>
CLARK P. FISKE <i>Secretary</i>	FRANCIS W. DANIELSON <i>Treasurer</i>

TRANSFER AGENTS

The Marine Midland Trust Company of New York, New York, N. Y.
The Corporation Trust Company of Jersey City, Jersey City, N. J.

REGISTRAR

The Chemical Corn Exchange Bank, New York, N. Y.

ACCOUNTANTS' REPORT

Board of Directors, Food Giant Markets, Inc., Franklin, Tennessee.

We have examined the balance sheet of Food Giant Markets, Inc. as of December 31, 1957, and the related statements of income and expense and earned surplus, and capital surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and expense and earned surplus, and capital surplus present fairly the financial position of Food Giant Markets, Inc. at December 31, 1957, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

St. Louis, Missouri,
March 4, 1958, except for Note J,
the date of which is March 18, 1958.

PRODUCTS OF

Magic Chef

DIVISION OF FOOD GIANT MARKETS, INC.

America's leading line of
gas ranges and space heaters



Oil Space
Heater



Built-In
Range



Free-Standing
Gas Range



Gas Space
Heater



